

Spend Management Strategy: How To Improve Your Strategic Spend Management Plan



What is Spend Management?

We've covered spend management on the blog before, so if you want a more in-depth look, take a look at our post: ["What is Spend Management?"](#)

Spend management refers to the process organizations use to collect, collate, maintain, categorize, and review spend information to save money on procurement, increase efficiency, improve workflow and productivity, and monitor compliance.

Spend management plays an important role in several parts of the procurement process.

Spend management is a continuous process. It is about controlling and making improvements to the way your organization spends money and isn't just about managing accounts payable.

It includes managing supplier relationships, inventory management, category

management, and more.

It includes processing requisitions, planning, budgeting, inventory management, sourcing, contract management, and product development.

Spend management isn't just for large organizations; companies of all sizes and types can take advantage of a strategic spend management approach across all departments.

Here, we outline a seven-step process to help you tackle it all. But before we do that, we'll take a closer look at what spend management is, and why it's important for your company.

Effective spend management involves conducting a spend analysis, to see the way your company spends money and what it spends money on across the entire supply chain.

The procurement department is most often in charge of spend management and spend optimization, but the truth is, it goes beyond them.

It also affects internal and external stakeholders of businesses who are also concerned with, or otherwise involved in planning and budgeting for future profitability.

Why Spend Management is Important

While investing in a spend management process and/or intelligent spend management software does cost money, it can mean the difference between a company that fails, and a company that thrives.

How? Spend management helps you see the areas that make you money and the areas that are costing you money.

With it, you can optimize your spending habits, reduce risk, and ultimately streamline your cash flow.

Most of us already have a kind of spend management in place, even with personal finances.

Your average household has bills to pay, groceries to buy, and children to

support.

By frequently monitoring debit card and credit card statements and tracking how much you're spending and where, you can budget more effectively, and plan for upcoming major expenses.

The same rules apply to businesses. You need spend management to stay in business and improve your bottom line.

The most effective spend management plans offer real-time analytics and data insights to make it easier for you to make better decisions, so you can reduce costs, but still produce value.

How Spend Management Improves Procurement

When you invest in spend management initiatives, you also provide procurement with better sourcing opportunities.

You'll also increase process efficiency, have greater spend visibility, and improve risk management.

Step 1: Identify Sources of Expenses

Before you can optimize your spend management, you must first determine what you're spending money on.

Procurement isn't just about the goods you're buying, but also the services you're using, and you should use purchase orders to help track everything where possible.

Your company pays rent/mortgage, utilities, employee wages and salaries, marketing and advertising, licenses, equipment, etc.

Depending on the nature of your business, sources of expenditure may vary, so every business is unique - but the process is typically the same.

Though finding the sources of expenses is necessary, identifying a complete,

thorough, exhaustive list of everything is challenging.

Using automation can help make this easier because it can help eliminate duplication.

In lieu of that automation, working with department heads to come up with their own individual lists, then compiling them.

The overall bird's eye view will make it easier to see potential savings opportunities and handle risk management.

Step 2: Store Information in a Centralized Location

In the ideal organizational structure, your accounts department is in charge of creating and maintaining the expense data repository.

Using automation, they can store and maintain records of spending. It's a best practice to mandate records for regular audits.

While identifying expenditure sources can be a challenge, putting all of the data in a central location is not an easy task.

The data is crucial and sensitive, so it shouldn't be accessible for everyone.

That means it is necessary to make someone responsible for categorizing and processing the data in batches, while also having a complete, unified view of the spending structure.

This is where procurement software that works with your enterprise-resource planning (ERP) software can make all the difference in your supply chain management and supplier relationships.

Step 3: Verify and Correct Data for Accuracy

Because spend data is analyzed, interpreted, and displayed to infer what's going on and drive decisions, it becomes necessary and essential to ensure the

information is accurate.

That's why you have to validate transaction entries by comparing the data entries with inventory, internal communications, receipts, etc.

Cleansing the data includes things such as removing errors, duplicates, and correcting spelling mistakes.

Because spend may not always be accurate as a result of manual processing, due to differences in data fields, formats, and so on, it's necessary to implement some kind of standardization.

To do this, you must establish a format that works for versatile domains including dates and currency.

As you conduct spend analysis, don't forget to factor in indirect spend. Making improvements to the pay process can also save time and money by reducing maverick spend."

Step 4: Categorize Spend

Spend data is made up of multiple types of spends. The categories and classifications are based upon your business's operations and objectives.

Keep in mind that the groups you prepare for classification need to cover all spins to bring it under a single view.

Based on the information you need, you can categorize the data in multiple ways. For instance, IT services can be classified as "types of IT services" or tagged by the vendor name.

This is when it becomes necessary for an organization to prioritize needs. That requires understanding this spend on a per vendor basis or per activity.

Step 5: Analyze Spend

Spend analysis refers to the process of analyzing the collected, cleansed, and classified data to highlight recurring spend activities and anomalies. It helps

when it comes to calculating averages percentages and more.

You can achieve spend analysis with a human analyst, along with a combination of machine learning and artificial intelligence.

It's a good idea to have cost benchmarking guidelines for your industry so that you can benchmark your employee compensation costs or outsourcing costs to conduct a cost-benefit analysis by calculating the return on investment.

Step 6: Build and Execute the Strategy

At this stage, you must execute any changes you decided upon based on the project.

If you introduced it from scratch, you can roll out your project in phases and allow your spend data to be collected and analyzed at the department level, if not the organization level, to test and make corrections to the procedure as necessary.

Change management is often difficult for many organizations. For it to be successful, you must have the participation and acceptance of all stakeholders.

Step 7: Forecast

The data you've collected can help you forecast events in the future, which helps with planning.

With effective spend management, you can effectively and regularly obtain accurate data. It allows you to identify and track data trends, which makes it easier to forecast spend in a number of likely scenarios. This way, your company can plan for fluctuations in supply and demand.

You'll be prepared for busy periods and slow periods alike. This ensures that no matter what your company comes up against, you'll be able to better manage cash flow, keeping operations running as smoothly as possible.

Data forecasting, however, requires accurate data *and* a talented, experienced analyst. If you don't have a data analyst on staff or the funds to hire one, you can take advantage of e-procurement systems that use AI to make categorizing and managing spend data easier.

You don't have to invest in expensive spend management solutions, but having tools to help automate the process will help.

No matter where you are in your business - whether you're a startup or a fortune 500, spend management matters.

Whether you have a formal procurement team or are a one-person show, paying attention to where you spend money, why you spend it, and what return you get, matters.

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